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MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE

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Exclusive Interview with HUD Secretary Jack Kemp

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Understanding Provides Perspective

The more things change, the more they stay the same. But that old adage does not seem to apply to today's mortgage industry—where staying with the shop-worn status quo can mean being left behind the competition.

Change is evident everywhere in the mortgage banking industry. The industry is undergoing a period marked by major upheaval. No one can safely predict what the future will bring, except that it will be profoundly different.

Technology is one of the driving forces behind the change. It is, at once, both a cause and a solution. Mortgage Company A uses a computer to process loans, and it gets the job done in half the time required by Mortgage Company B. Company B starts to lose business. It looks for the reason and finds it: the computer. So it has to decide whether to automate, and if so, what type of computer system, and to what uses should it be put? Who should be trained? How much will it cost? What will the benefits be? If the company decides not to automate, then the question of survival may become the matter at hand.

In this issue of *Mortgage Banking*, we take a look at how technology is transforming the mortgage finance business—how it is both causing change and supplying solutions to both large and small firms. This issue also takes a very important look at the human side too, or to be more specific, what's on the political horizon. The views of new HUD Secretary Jack Kemp are important to the outlook for the industry, and we share them with our readers in an exclusive interview, conducted prior to his Senate confirmation hearings. After reading this, we think it's clear that HUD, at the very least, will have vigorous leadership in the new administration.

From striving to understand all this change, we hope to get a clearer perspective on what to expect tomorrow.

Janet Reilley Hewitt
Editor

COMING IN MARCH

Legislative Fiat

There can be no doubt now that the nation will have a new housing policy in the near future. Among the forces that will forge this policy, there are strong agreements and disagreements. We'll take a look at what to expect, and how the S&L and deficit problems may influence the outcome.

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VITAL STATISTICS

INTEREST RATES & YIELDS

1- TO 4-FAMILY MORTGAGES

	FHA OPINION SURVEY	FHLBB			FNMA		FHLMC	
1988	FHA New Homes[1]	CONVENTIONAL[2] FRM	ARM	Median Cost of Funds FSLIC Institutions	1-Yr. ARM	FRM Conv.	ARMs	FRMs
AUG	10.70%	10.56%	8.47%	7.21%	9.10%	10.49%	8.01%	10.60%
SEP	10.66	10.64	8.51	7.21	8.99	10.25	8.14	10.48
OCT	10.41	10.69	8.58	7.29	8.86	9.97	8.12	10.30
NOV	10.43	10.54	8.76	NA	9.13	10.22	8.16	10.27
DEC	**NA**	**NA**	**NA**	**NA**	**9.39**	**10.59**	**8.40**	**10.61**

SELECTED SECURITIES

		PRIME COMMERCIAL PAPER	U.S. GOVERNMENT				
1988	FEDERAL FUNDS RATE	(3-Month)	6-Month	1-Year	3-Year	10-Year	A-Rated Utility
SEP	8.19%	8.17%	7.43%	8.09%	8.57%	8.98%	10.26%
OCT	8.30	8.24	7.50	8.11	8.43	8.80	10.11
NOV	8.35	8.66	7.86	8.48	8.72	8.96	10.12
DEC	**8.76**	**9.11**	**8.22**	**8.99**	**9.11**	**9.11**	**10.08**

CURRENT SECONDARY MARKET YIELDS

1988	GNMA[3]	FNMA[3]	FHLMC[3]
SEP	10.11%	10.09%	10.06%
OCT	9.96	9.97	9.95
NOV	9.98	9.91	9.89
DEC	**10.26**	**10.24**	**10.22**

SPREADS
(Basis Points)

	GNMA	FNMA	FHLMC
	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.	Minus 10-Yr. Govt.
SEP	113	111	108
OCT	116	117	115
NOV	102	95	93
DEC	**115**	**113**	**111**

SECONDARY MARKET ACTIVITY
(Dollars in Millions)

	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities						Pass-Through Securities	
1988	Commitments	Purchases	Outstanding	Issued	Commitments To Sell	Commitments To Buy	Mortgages Purchased	Mortgages Sold	Applications	Issued
AUG	$1,041	$1,638	$163,253	$4,261	$4,095	$3,480	$3,858	$3,719	$6,517	$6,327
SEP	1,439	1,111	167,170	5,622	4,234	6,208	4,192	3,728	5,975	5,684
OCT	1,740	1,488	170,395	4,772	3,983	4,406	4,037	3,674	5,599	5,823
NOV	**1,289**	**1,596**	**174,278**	**5,405**	**NA**	**NA**	**NA**	**NA**	**6,380**	**3,885**
1987 TOTAL	25,415	20,531	---	63,230	68,210	76,615	76,840	75,018	116,611	96,983
1986 TOTAL	32,987	30,826	---	60,566	107,209	136,179	103,474	102,431	152,911	98,169
11 MONTH AVG.[4]										
1988	2,008	1,944	---	4,495	3,350	5,051	3,412	3,003	4,407	4,345
1987	2,027	1,526	---	5,169	6,368	7,272	7,060	6,908	10,270	8,390
1986	2,883	2,590	---	5,007	8,907	12,248	8,231	8,031	12,958	7,822

Housing Activity

Residential Structures

(Units in Thousands, Seasonally Adjusted Annual Rates)

	BY TYPE OF UNIT						BY REGION							
	HOUSING STARTS			BUILDING PERMITS			HOUSING STARTS				BUILDING PERMITS			
1988	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Northeast	Midwest	South	West	Northeast	Midwest	South	West
AUG	1,461	1,139	322	1,464	1,096	368	218	241	570	432	215	253	562	434
SEP	1,467	1,106	361	1,394	1,049	345	208	259	573	427	192	251	547	404
OCT	1,542	1,204	338	1,516	1,110	406	202	266	584	490	218	262	564	472
NOV	**1,563**	**1,215**	**348**	**1,517**	**1,122**	**395**	**228**	**244**	**612**	**479**	**208**	**235**	**368**	**506**
1987 TOTAL	1,621	1,212	409	1,535	1,114	421	269	298	694	420	272	282	575	406
1986 TOTAL	1,805	1,263	542	1,769	1,186	584	294	296	733	483	283	290	687	510
11 MONTH AVG. (SAAR)														
1988	1,490	1,146	344	1,440	1,072	368	247	265	570	407	239	259	537	404
1987	1,656	1,235	421	1,558	1,129	429	277	311	637	430	276	294	580	409
1986	1,810	1,261	549	1,760	1,176	584	298	291	741	480	281	289	695	494

Home Sales

(Units in Thousands)

	EXISTING HOMES			NEW HOMES		
1988	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate	Sold (SAAR)	Available for Sale	Months Supply At Current Sales Rate
AUG	3,710	2,520	8.2	714	363	6.3
SEP	3,670	2,420	7.9	698	362	6.5
OCT	3,670	2,925	7.4	729	355	6.0
NOV	**3,710**	**2,630**	**8.5**	**671**	**365**	**6.7**
1987 TOTAL	3,526	---	---	671	---	---
1986 TOTAL	3,565	---	---	750	---	---
11 MONTH AVG. (SAAR)						
1988	3,552	---	---	681	---	---
1987	3,544	---	---	681	---	---
1986	3,521	---	---	742	---	---

Value of New Private Construction Put in Place

(Units in Billions of 1982 Dollars, Seasonally Adjusted Annual Rates)

	Total[5]	1–Unit	2+ Units	Nonresidential
AUG	$283.0	$102.0	$19.1	$77.9
SEP	283.3	103.2	19.3	76.6
OCT	285.1	104.8	19.1	77.5
NOV	**285.4**	**107.2**	**18.7**	**76.9**
1987 TOTAL	283.0	100.7	22.4	78.2
1986 TOTAL	281.8	92.0	28.0	79.8
11 MONTH AVG. (SAAR)				
1988	280.6	103.3	19.3	77.7
1987	282.4	100.3	22.5	77.9
1986	281.0	90.9	28.0	80.2

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Type of Unit
(Dollars in Millions)

	1-4 UNITS					5+ UNITS					NONRESIDENTIAL				
1988	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies	Total[6]	Mortgage Bankers	Savings & Loans[7]	Commercial Banks	Life Companies
MAY	$33,300	$7,277	$16,518	$8,899	$253	$3,253	$256	$1,636	$883	$323	$16,654	$48	$1,872	$11,795	$2,802
JUN	41,765	9,914	20,031	10,938	464	3,844	593	2,167	711	188	16,074	63	2,256	10,551	3,095
JUL	34,284	7,685	17,072	8,823	393	3,631	837	1,582	701	372	13,449	128	1,844	9,640	1,673
AUG	**38,515**	**9,057**	**19,923**	**8,820**	**336**	**3,368**	**278**	**1,901**	**605**	**394**	**14,909**	**156**	**2,115**	**10,250**	**2,244**
1987 TOTAL	449,544	110,093	208,054	124,551	3,209	44,981	2,409	22,492	8,299	3,547	168,652	2,871	25,613	110,490	28,160
1986 TOTAL	455,054	131,628	207,182	108,613	3,814	49,868	7,172	22,769	7,176	3,723	147,374	4,084	27,306	83,929	29,906
8 MONTH AVG.															
1988	30,671	7,307	15,028	7,759	231	2,979	367	1,600	571	279	14,554	73	1,871	10,469	1,994
1987	41,046	10,522	18,399	11,540	308	4,066	193	1,862	796	262	12,876	284	2,006	8,527	1,968
1986	34,538	10,270	13,685	7,599	285	3,540	500	1,536	440	306	10,455	298	2,036	5,950	1,994

MORTGAGE INSURANCE
(Units in Thousands, Dollars in Millions)

	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
1988	TOTAL	FHA[8]	VA	PRIVATE	TOTAL		FHA		VA		PRIVATE	
					Units	Amount	Units	Amount	Units	Amount	Units	Amount
AUG	162	85	22	55	129	$9,588	66	$4,070	19	$1,451	43	$4,068
SEP	141	72	19	50	117	8,732	59	3,655	20	1,505	38	3,572
OCT	**135**	**70**	**19**	**46**	**129**	**9,468**	**75**	**4,642**	**18**	**1,389**	**36**	**3,437**
NOV	**126**	**69**	**17**	**40**	**92**	**7,006**	**41**	**2,535**	**18**	**1,334**	**33**	**3,137**
1987 TOTAL	2,340	1,211	408	721	2,282	159,668	1,320	81,881	451	33,312	511	44,475
1986 TOTAL	3,281	1,907	450	923	1,853	127,757	921	56,901	346	24,718	586	46,138
11 MONTH AVG.												
1988	148	81	17	50	112	8,196	58	3,552	18	1,309	36	3,335
1987	204	106	36	62	196	13,733	114	7,081	39	3,891	43	3,761
1986	278	163	37	78	153	10,495	76	4,670	28	1,996	49	3,829

NA—Not Available; SAAR—Seasonally Adjusted Annual Rate

[1]Secondary market gross yields. Numbers shown for each month are the average of yields from the first day of the month shown and the first day of the subsequent month.

[2]Effective rate on loans closed.

[3]Securities for 0 to 30 day delivery.

[4]Average covers one month less for FHLMC.

[5]In addition to the categories of private construction shown, the total also includes these categories: residential improvements, railroads, electric light and power, gas, telephone and telegraph, petroleum pipelines, and farm nonresidential.

[6]In addition to the categories shown, the total also includes private pension funds, private MBS conduits, state and local retirement funds, Federal credit agencies, mortgage pools, and state and local investment agencies.

[7]Savings & Loans and Mutual Savings Banks.

[8]FHA applications received includes the Direct Endorsement Program.